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FOR NEA BURNS/SATTERFIELD AND NEA/IPA, USAID FOR KUNDER AND MCCLOUD

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SUBJECT: RECOMMENDATIONS ON MAJOR GAZA/WEST BANK USAID  
PROJECTS IN LIGHT OF SECURITY SITUATION

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b), (d).

This is a joint message from Ambassador Kurtzer,  
Consul-General Pearce and USAID Director Garber.

1. (C) Summary/Recommendations: On January 30, Chiefs of Mission in Tel Aviv and Jerusalem and the West Bank/Gaza USAID Mission Director decided jointly to put an eight-week hold on four USAID projects to allow time to: 1) measure progress in the investigation of the October, 2003 murder of our security personnel in Gaza; 2) measure progress in Egyptian-sponsored security planning; and 3) evaluate whether it would be possible to manage major projects without participation of American citizen employees or contractors. The projects put on hold were the Gaza water carrier and desalination plant, the Bani Naim water project in the West Bank, and emergency road repair projects affecting mostly Gaza. On March 26, the same group met and concluded that virtually no progress could be reported in the murder investigation and the Egyptian security plan has been put on hold as the instability and insecurity in Gaza has grown in the last eight weeks. On the third issue, it is not desirable but it is possible to waive virtually all use of direct hire or contractor Amcit personnel in carrying out the projects.

2. (C) Recommendations: The Embassy, ConGen, and USAID Mission differ on next steps, and offer three distinct recommendations:

-- The Embassy, (with overall responsibility for U.S. government activities in Gaza), believes that given the continued lack of progress in the Gaza murder investigation, and the continuing lack of workable security arrangements in Gaza, the USG should suspend the Gaza water carrier and desalination projects, as well as road repair in Gaza. While the conditions in the West Bank are not as bad as in Gaza, the Embassy also believes that suspension of the Bani Naim water project will send an important signal to the Palestinian Authority. The Embassy is deeply concerned that to go on with business as usual will signal to Palestinians that no cost is associated with killing Americans in Gaza.

-- The USAID Mission for the West Bank and Gaza believes that the Bani Naim and road projects should go forward and would have either the two water projects proceed subject to starts and stops due to security concerns, or reprogram the money for other uses in the West Bank/Gaza assistance effort. The USAID mission believes other means could be used to leverage progress on the investigation, that operations could proceed through actively managing security concerns, and that the greater U.S. interest is in averting a humanitarian crisis in Gaza, which could contribute to even greater instability. The USAID mission believes it can adequately address the oversight issues within very severe security constraints on travel by AMCIT direct hire or contract personnel.

-- The Consulate-General, (with overall responsibility for Jerusalem and the West Bank as well as the policy dialogue with the Palestinians), agrees for security reasons with Embassy recommendation that the Gaza water and road projects be deferred or canceled. But it concurs with USAID that the Bani Naim water project should proceed, using local contractors to the maximum extent possible, and subject to ongoing monitoring of the security situation. Similarly, the proposed West Bank road projects, on which local contractors will do the work, should proceed. The ConGen notes that the USG threat to suspend or cancel assistance projects in the WB/Gaza has had virtually no demonstrable impact on the security behavior of the PA, and questions whether actual cancellation will provide additional leverage. If all the projects are canceled without distinguishing among the differing level of risk each poses, we may send not only a signal to the PA on security, but also a signal to the Palestinian populace that the USG does not care about its basic humanitarian needs. It could also signal the donor community that the USG is disengaging from assistance, which could spark similar actions by other donors and worsen the situation on the ground.

Given contractual decisions that must be made on the water carrier project in the very near future, we request prompt Washington consideration of this matter. Posts will supply any additional inputs required.

(End Summary/Recommendations)

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Security Issues  
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13. (C) In early December of last year, the USG put the Palestinians on notice on the relationship between security issues and our ability to carry out major USAID projects. This theme has been reiterated constantly since to senior Palestinian interlocutors. At the meeting of the Ad Hoc Liaison Committee (for Palestinian assistance) held in Rome on the 10th of December, NEA Assistant Secretary Burns told the group:

I want to speak plainly about the importance the United States attaches to investigating the murder of three of our diplomatic colleagues in Gaza last fall. We are still waiting for results in that investigation. Without progress, culminating in the arrest and conviction of those responsible, we simply cannot carry out our full range of assistance projects for the Palestinian people. Without a more secure working environment, moving forward with large scale programs -- such as the long-planned Gaza water infrastructure projects, and millions of dollars in road repair money ready to be disbursed in the spring -- will be impossible.

Neither of the two conditions stated by A/S Burns had been met when we reviewed them as of January 30 and neither has been met two months later. Promises of major developments in the investigation have been made at some junctures with no results. A security court trial of suspects, who may or may not have been directly involved, was scheduled and then canceled. The investigation is further hindered by lack of trust and coordination between the Palestinian security services. Arafat's role has been at best unclear; at times he has given orders to spur further action while at other times he has reportedly viewed the investigation as a political enticement with which to lure the USG back into a relationship with him.

14. (C) Meanwhile the overall security environment in Gaza has deteriorated, with the Palestinian security leaders advising for the last three months that they are not in control and that travel by U.S. Government personnel in Gaza remains quite risky. The killing of Sheikh Yassin further exacerbated the situation, with perceptions among many Palestinians that the USG condoned the killing. At this time, no direct hire American staff are being permitted to travel inside Gaza, and with new threats at Erez, we have even stopped meetings just inside the border at the Abu Eskander guest house. USAID American citizen contractors are sharply limiting their travel into Gaza. Even travel by contractors could be halted if the missions in Tel Aviv or Jerusalem decided that it was no longer sustainable in a relatively safe manner.

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The Projects and Their Oversight  
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15. (C) The Gaza water projects will be the largest projects USAID has embarked on in its support for the Palestinians. The water carrier and desalination plant in Gaza are expected to cost about \$65 million each. Given the current security situation in Gaza, the prospect of direct-hire American staff being allowed to travel to Gaza to exercise oversight of these projects is very questionable. USAID Washington has already agreed that these projects could be carried out with a very limited number of trips by U.S. direct hire staff. For example, perhaps only a trip by contracting officer and engineer at the end of the water carrier project (i.e., in 2006 or 2007) to certify the project would be technically required. Also the Gaza regional water carrier project could be broken up into smaller pieces and involve more local contracting. While it would be preferable to have an American contractor providing engineering oversight on a daily basis, particularly the desalination plant, it would be possible, according to USAID Director, to waive such a legal requirement should it be decided to proceed under adverse security conditions, and to insist that the contractor retain instead a U.S.-trained, non-American engineer. Obviously the absence of U.S. direct hire personnel to inspect and certify progress would not be ideal, but with a talented local staff and a qualified construction management firm Mission is willing to accept the risk. (USAID Mission advises that USAID Washington is also prepared to accept the risk.) Oversight requirement would be more easily manageable for the Bani Naim project in the West Bank, and the roads projects could be carried out with very limited Amciti involvement.

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Policy Considerations  
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16. (C) A robust assistance program, combined with diplomatic efforts to assure funding for the needs of the Palestinians, has been a consistent element of U.S. policy. This vector has been maintained even as the USG has assessed that the near term chances of significant progress on the political issues are minimal. We have strongly supported revenue transfers by the Israelis. We have urged other donors to address Palestinian needs, and we have done all we can to support reformers in the PA. Thus, any decision to defer or forego a significant element of our assistance program would send a negative signal to the Palestinian reformers and to the donor community. On the other hand, moving ahead with major projects absent resolution of the Gaza murders and a creation of a more secure environment would send a message to the Palestinian leadership and Palestinian terrorists that there is no cost for killing Americans. However, we do not claim any success so far in use of an implicit "stick" in eliciting progress in the investigation or in prompting Palestinian security improvements. Those PA reformers who understand the impact of such a decision have little or no influence on security, and those in charge of security and the investigation have little or no appreciation for the costs of canceling the projects. We cannot rule out, however, that a clear cut-off of substantial programs would have a greater impact than our warnings to this effect have had so far.

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Costs  
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17. (C) The direct costs associated with any suspension of the four projects are minimal. The water carrier project is the most advanced and would require an approximately \$300,000 cancellation fee and associated costs in demobilizing the construction management firm's operations here. Such costs must of course be weighed against the security premiums associated with protective measures that would be required to carry out the projects in Gaza at this time. We have not identified any significant costs related to the deferral of the other three projects.

18. (C) We recognize fully the humanitarian costs in not addressing or delaying solutions to the dire water situation in the WB/G, particularly in Gaza. However, if we cannot be at least somewhat assured that these projects to alleviate the water problems can be carried out in safety, we would face both excessive construction costs and the prospect of more costly cancellation at a later date due to security problems. Other donors are likely to be influenced by a suspension; some have scaled back their exposure in Gaza already. In general, it will be more difficult to mobilize support for Palestinian needs, a role the United States has played for many years.

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Requested Action  
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19. (C) We cannot take final decisions on these matters in the field. The significant policy questions require a full airing in Washington and we will supply further inputs and elaborated arguments as requested for such consideration. We would ask that such a deliberation take place as soon as possible, given the advanced stage of the contracting process for the Gaza Regional Water Carrier in particular and the need to issue an RFP for Bani Naim within the next couple of weeks, or risk losing \$15 million in FY03 funds.

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